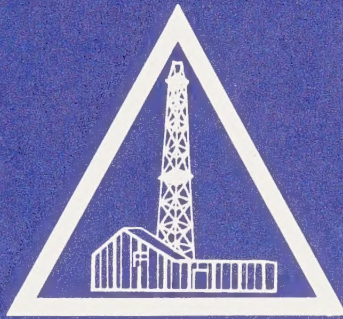
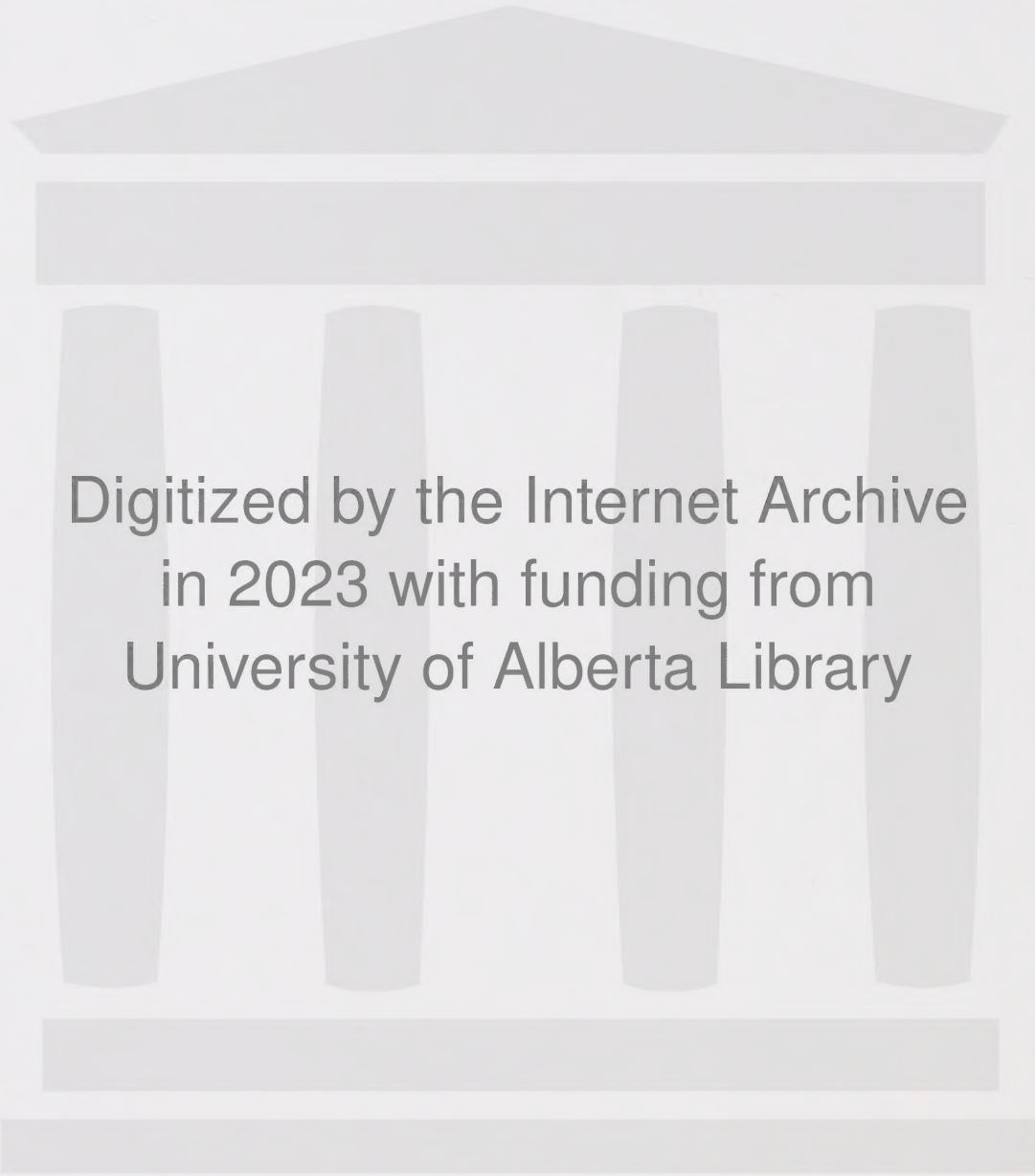


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SOGEPET LIMITED



1974
ANNUAL REPORT



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SOGEPET LIMITED

Head Office
170 Bloor Street West, Suite 418
Toronto, Ontario, Canada
M5S 1T9

DIRECTORS

DOUGLAS A. BERLIS, Q.C.
IVAN CUTHILL
DR. FRANC. R. JOUBIN
WILLIAM F. MITCHELL
ARTHUR E. WOOTTON
EDWARD W. H. TREMAIN

OFFICERS

DR. FRANC. R. JOUBIN, *President*
WILLIAM F. MITCHELL, *Vice-President*
MRS. C. A. WOLF, *Secretary-Treasurer*

LEGAL COUNSEL

MANLEY, GRANT & CAMISSO

TRANSFER AGENT

GUARANTY TRUST COMPANY OF CANADA
TORONTO, ONTARIO

AUDITORS

LAVENTHOL & HORWATH

SOGEPET LIMITED

Directors' Annual Report 1974

To the Shareholders of Sogepet Limited:

Activity during the year was directed to the Hudson Bay region of Canada and the Appalachian region of northeastern U.S.A.

Hudson Bay activity was concentrated on the Arco Group acreage and consisted of seismic surveying, the obligatory abandonment of the earlier uncompleted Walrus well and the drilling of the Narwhal South and Polar Bear wells. The last two wells, drilled about 100 miles apart in the mid-basin area, proved dry. They were critically useful in providing the first offshore stratigraphic control for the re-evaluation of our several preceding seismic programs. Shell Canada Limited participated in the Arco Group's 1974 program as a farmee with the right to earn up to 50% of Atlantic Richfield's and Elf's equity over a three year period.

The North Central Islands Group in Hudson Bay, still largely under work variation orders, was re-organized for possible resumption of exploration activity should environmental questions be resolved. Our Company acquired Texasgulf's 40% equity in these permits through our assumption of the related possible work obligations and our Company has become group operator. Prior to year-end a core drilling and marine seismic program was submitted to the Federal authorities for approval in principle.

If accepted, the program would proceed during 1975.

There was no activity during 1974 on either the Hudson Bay or James Bay Lowlands groups. An aero-magnetic survey planned for the latter group during late 1974 was delayed but is presently underway.

Our Appalachian region activities consisted of geological studies, acreage acquisition and seismic data evaluation; all preparatory to a well drilling program to be commenced in early 1975.

During the year, The Consumers' Gas Company exercised its right to convert \$875,000 of exploration expenditures incurred into shares of our Company at \$1.25 per share. Consumers' also became entitled to nominate a third director to our Board. Accordingly, Mr. E. W. H. Tremain, Vice-President, Treasurer and Assistant Secretary of The Consumers' Gas Company, was appointed a Director of our Company, replacing Mr. James P. Manley, Q.C. who remains the Corporation's legal counsel.

On behalf of the Board of Directors,

FRANC. R. JOUBIN,
President.

March 31, 1975.

SOGEPET LIMITED

AUDITORS' REPORT

To the Shareholders of
Sogepet Limited

We have examined the balance sheet of Sogepet Limited as at December 31, 1974 and the statements of deferred exploration and administrative expenditures, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1974 and its activities and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LAVENTHOL & HORWATH,

Chartered Accountants.

Toronto, Ontario,
February 20, 1975.

Balance Sheet —

ASSETS

	1974	1973
CURRENT:		
Cash	\$ 59,435	\$ 47,232
Deposit receipts	535,000	535,000
Accrued interest	7,860	9,056
Accounts receivable	2,885	2,333
	<u>605,180</u>	<u>593,621</u>
Work deposits on petroleum and natural gas exploratory permits (Note 2)	<u>70,450</u>	<u>70,450</u>
Deposit on application for permits (Note 3)	<u>42,833</u>	<u>42,833</u>
 CAPITAL ASSETS:		
Petroleum and natural gas interests, at cost (Note 4)	78,883	58,716
Deferred exploration and administrative expenditures	2,572,422	1,523,773
Share of advance on off-shore drilling rig mobilization and demobilization	—	227,694
Advances re drilling program	39,169	—
	<u>2,690,474</u>	<u>1,810,183</u>
Less net proceeds from sale of interest in petroleum and natural gas exploratory permits	317,500	317,500
	<u>2,372,974</u>	<u>1,492,683</u>
	<u><u>\$3,091,437</u></u>	<u><u>\$2,199,587</u></u>

IMITED

of Ontario)

December 31, 1974

LIABILITIES

	1974	1973
CURRENT:		
Accounts payable	\$ 4,199	\$ 1,359
Expenses incurred by The Consumers' Gas Company for which company's shares are to be issued (Note 5)	704,652	737,352

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 6):

Authorized:

5,000,000 Common shares, without par value

Issued:

2,241,303 Common shares (1973 — 1,511,303 shares) 2,491,502 1,569,792

DEFICIT	108,916	108,916
	2,382,586	1,460,876

\$3,091,437	\$2,199,587
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See accompanying notes.

On behalf of the Board:

FRANC. R. JOUBIN, Director.

IVAN CUTHILL, Director.

SOGEPET LIMITED

DEFERRED EXPLORATION AND ADMINISTRATIVE EXPENDITURES

Year Ended December 31, 1974

EXPLORATION EXPENDITURES:	1974	1973
Hudson and James Bay Areas:		
Exploratory well drilling and related costs	\$13,555,511	\$ 776,788
Geophysical and geological surveys	1,208,868	305,884
Group exploration expenditures	14,764,379	1,082,672
Less other participants' share	13,782,009	921,240
Company's share of expenditures	982,370	161,432
Engineering and geological services	24,600	24,400
Lease rentals	5,459	1,859
Miscellaneous	579	1,428
	<u>1,013,008</u>	<u>189,119</u>
Appalachian and Chautauqua Areas, U.S.A.:		
Geophysical and geological surveys and studies	93,248	108,931
Less other participants' share	69,936	84,209
Company's share of expenditures	23,312	24,722
Engineering and geological services	4,200	3,225
Lease rentals and bonuses	13,563	3,242
Miscellaneous	549	356
	<u>41,624</u>	<u>31,545</u>
Outside Ventures	4,720	—
Total exploration expenditures	1,059,352	220,664
Administrative expenditures, per schedule	53,475	40,964
	<u>1,112,827</u>	<u>261,628</u>
Less interest income	64,178	40,609
Total expenditures for the year	1,048,649	221,019
Balance deferred, beginning of year	1,523,773	1,302,754
Balance deferred, end of year	<u>\$ 2,572,422</u>	<u>\$ 1,523,773</u>

SUMMARY OF DEFERRED EXPENDITURES:

Exploration:

Hudson and James Bay Areas	\$ 2,406,223	\$ 1,393,215
Appalachian and Chautauqua Areas	82,169	40,545
Outside Ventures	4,720	—
	<u>2,493,112</u>	<u>1,433,760</u>
Administrative, net of interest income	79,310	90,013
	<u>\$ 2,572,422</u>	<u>\$ 1,523,773</u>

SOGEPET LIMITED

STATEMENT OF DEFICIT Year Ended December 31, 1974

	<u>1974</u>	<u>1973</u>
Balance, beginning of year	\$ 108,916	\$ 87,064
ADD:		
Organization and stock exchange listing expenses written off	<u>—</u>	<u>21,852</u>
Balance, end of year	<u><u>\$ 108,916</u></u>	<u><u>\$ 108,916</u></u>

SCHEDULE OF ADMINISTRATIVE EXPENDITURES Year Ended December 31, 1974

	<u>1974</u>	<u>1973</u>
Head office rent and administrative services	\$ 8,400	\$ 8,150
Manager's salary (Calgary)	13,200	12,000
Directors' fees and officer's remuneration	6,400	1,000
Legal and audit	7,743	3,817
Annual meeting expenses	3,753	3,290
Public relations and shareholders' information	3,242	3,464
Transfer agent's fees and expenses	1,644	2,505
Telephone	2,250	1,580
Travel	2,460	1,117
Miscellaneous	4,383	4,041
	<u><u>\$ 53,475</u></u>	<u><u>\$ 40,964</u></u>

SOGEPET LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS Year Ended December 31, 1974

	1974	1973
SOURCE OF FUNDS:		
Interest income	\$ 64,178	\$ 40,609
Issue of capital stock	46,710	24,854
Reduction of work deposits	—	138
	<u>110,888</u>	<u>65,601</u>
APPLICATION OF FUNDS:		
Exploration expenditures	1,059,352	220,664
Less advance re off-shore drilling rig mobilization and demobilization made in 1973	227,694	—
	<u>831,658</u>	<u>220,664</u>
Administrative expenditures	53,475	40,964
Share of advance on off-shore drilling rig mobilization and demobilization	—	227,694
Advances re drilling program	39,169	—
	<u>924,302</u>	<u>489,322</u>
Less expenditures incurred by The Consumers' Gas Company (Note 5)	842,300	468,202
	<u>82,002</u>	<u>21,120</u>
Acquisition of interests in petroleum and natural gas acreage	20,167	3,303
	<u>102,169</u>	<u>24,423</u>
Increase in working capital	8,719	41,178
Working capital, beginning of year	592,262	551,084
Working capital, end of year	<u>\$ 600,981</u>	<u>\$ 592,262</u>

See accompanying notes.

SOGEPET LIMITED

NOTES TO FINANCIAL STATEMENTS

December 31, 1974

1. ACCOUNTING POLICY:

As the company is in the exploration stage, a statement of income is not prepared. Exploration and administrative expenditures, reduced by sundry income, are charged to deferred expenditures as incurred. If an area of interest is abandoned, exploration expenditures incurred in this area, and a pro rata portion of administrative expenditures will be written off directly to deficit.

2. WORK DEPOSITS:

Work deposits at December 31, 1974 consist of the following:

Bank deposit receipts	\$ 65,500
Cash	<u>4,950</u>
	<u>\$ 70,450</u>

The bank deposit receipts are pledged as security to the bank which has guaranteed \$65,125 of the company's promissory notes deposited with government departments in lieu of cash work deposits. These notes will be returned to the company in amounts equal to the allowable expenditures made within various stipulated time limits.

Subsequent to December 31, 1974 the company pledged bank deposit receipts in the amount of \$75,000 to cover government work deposit requirements on additional interest in acreage acquired in 1974.

All of the work deposits, except the \$4,950 cash work deposit, cover work requirements on acreage presently under government variation orders.

3. The company is a $\frac{1}{3}$ participant in an application for 34 permits (1,976,922 acres) in the Hudson Bay area. This application has been accepted but will not be granted until the company accepts new federal regulations under formulation. The \$42,833 shown on the balance sheet represents $\frac{1}{3}$ of the required payments in the form of a deposit receipt of \$40,000 which is pledged as a work deposit and permit application fees of \$2,833.

4. PETROLEUM AND NATURAL GAS INTERESTS:

Petroleum and natural gas exploratory permits, Hudson and James Bay region	\$ 58,716
Oil and gas leases, Appalachian and Chautauqua Areas, U.S.A.	<u>20,167</u>
	<u>\$ 78,883</u>

5. AGREEMENT WITH THE CONSUMERS' GAS COMPANY:

- (a) Under an agreement dated July 20, 1971, The Consumers' Gas Company agreed to spend \$2,000,000 over the next three years on gas and oil exploration on licenses in the Hudson and James Bay area in which the company holds an interest. Expenditures by Consumers' to December 31, 1974 amounted to \$1,579,652. The time for completion of the expenditure of the \$2,000,000 has been extended to December 31, 1975.

Consumers' is to receive, for the expenditures incurred, fully paid shares of Sogepet's capital stock from time to time on the following basis:

700,000 shares at \$1.25 per share	\$ 875,000
500,000 shares at \$1.75 per share	875,000
125,000 shares at \$2.00 per share	250,000
<u>1,325,000 shares</u>	<u>\$2,000,000</u>

During 1974 the company issued the 700,000 shares to Consumers' as above.

Consumers' may at any time purchase any of the above shares that remain unissued from time to time for cash at the prices indicated.

During the 60-day period after the expenditures have aggregated \$1,750,000, Consumers' has the option to subscribe for additional shares at a price equal to 75% of the average bid price per share during the 90-day period preceding the exercise of the option, so that it will own 51.75% of the then issued capital of Sogepet.

- (b) During the term of the agreement with Consumers', Sogepet may not issue shares or grant options for the purchase of shares without the consent of Consumers' except that it may grant its officers, employees and directors options to purchase up to an aggregate of 85,000 shares in addition to the options mentioned in Note 6(b) provided that it grants Consumers' the right to purchase an equal number of shares on the same basis. This right applies only to those options exercised by the officers, employees and directors.

6. CAPITAL STOCK:

- (a) During the year the company issued 730,000 shares of its capital stock as follows:

30,000 shares by exercise of stock options..	\$ 46,710
700,000 shares for expenditures incurred by The Consumers' Gas Company	875,000
<u>730,000 shares</u>	<u>\$ 921,710</u>

The following is an analysis of the company's issued capital stock as at December 31, 1974:

	Shares	Amount
For cash	1,297,303	\$1,537,627
For services	94,000	71,375
In consideration for subscribing to preferred shares ...	150,000	7,500
For expenditures incurred by The Consumers' Gas Company (Note 5(a))	700,000	875,000
	<u>2,241,303</u>	<u>\$2,491,502</u>

Subsequent to December 31, 1974, 17,000 shares of capital stock were issued for \$10,092 by exercise of stock options.

(b) Stock options:

The following is a summary of the changes in the outstanding options during the year:

	<u>Calgary Manager</u>	<u>President</u>	<u>Consumers' Gas (Note 5 (b))</u>
Options outstanding December 31, 1973 . .	16,000	7,500	23,500
Options exercised during year	<u>10,000</u>	<u>5,000</u>	<u>15,000</u>
Options outstanding December 31, 1974* .	<u>6,000</u>	<u>2,500</u>	<u>8,500</u>

* all exercised in full after December 31, 1974.

7. OFFICERS' AND DIRECTORS' REMUNERATION:

Direct remuneration to the directors and senior officers of the company during the year amounted to \$19,600.

In addition, the company paid \$24,600 to a corporation controlled by the company's Calgary office manager for acting as the company's professional and technical advisor, and providing at its own expense, office facilities including staff for the company's Calgary office.

The company also paid to a corporation controlled by the company's president, a professional geologist, \$4,200 for engineering and geological services, and \$8,400 for head office rent and administrative services.

ACREAGE HOLDINGS

	GROUP	Group Gross Acres	Sogepet Equity	Net Acres
A.	<u>Aquitaine Co. of Canada Ltd. — Operator —</u> Atlantic Richfield Canada Ltd. * Elf Oil Exploration & Production Canada Ltd. * Petrofina Canada Ltd. Sogepet Limited * Shell Canada has right to earn a portion of these equities.	<u>Aquitaine/Arco Group</u> <u>Off-Shore</u> <u>15,072,294</u>	6.6%	<u>994,771</u>
B.	<u>Aquitaine Co. of Canada Ltd. — Operator —</u> Sogepet Limited Elf Oil Exploration & Production Canada Ltd. Teck Corporation Limited Western Decalta Petroleum Ltd. Murphy Oil Company Ltd. Texasgulf Inc.	<u>Aquitaine/Sogepet Group</u> <u>Off-Shore</u> 529,305 Hudson Bay Lowlands Ontario 651,440 James Bay Lowlands Ontario 1,960,924 <u>3,141,669</u>	22.3% 22.3% 45.6%	118,035 145,271 <u>894,181</u> <u>1,157,487</u>
C.	<u>Sogepet Limited — Operator —</u> Canadian Homestead Oils Ltd. Teck Corporation Limited	<u>Northern Islands Group</u> (Formerly Texasgulf) <u>Off-Shore</u> 2,938,578* 234,930 <u>3,173,508</u> <u>On-Shore</u> 312,521* <u>3,486,029</u> * under variation order	60.0% 33.3% 60.0%	1,763,147 78,310 <u>1,841,457</u> <u>187,512</u> <u>2,028,969</u>
	TOTAL ACREAGE: HUDSON/JAMES BAY	<u>21,699,992</u>		<u>4,181,227</u>
D.	<u>Seis-Ex Geophysical Ltd. — Operator —</u> Sogepet Limited Alminex Limited Sabre Petroleums Ltd.	<u>New York and</u> <u>Pennsylvania, U.S.A.</u> <u>State Leases</u> 14,279 2,707 16,986 <u>Freehold Leases</u> 43,202	25.0% 33.3% 25.0%	3,570 902 4,472 <u>10,800</u>
	TOTAL ACREAGE: U.S.A.	<u>60,188</u>		<u>15,272</u>

